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SUBJECT: Mongolia's Parliament Passes Tax, Anti-Money-Laundering, Minerals, and Anti-Corruption Laws

Ref: Ulaanbaatar 380

¶1. SUMMARY: Prior to the July 11-14 Naadam national day holiday, the State Great Hural (SGH - Parliament) passed three major pieces of legislation: an anti-corruption law; an anti-money laundering law; and amendments to the minerals law. The bills culminated a busy spring session for the legislature. At the end of June, the SGH passed several tax bills that will significantly change Mongolia's tax regime. END SUMMARY.

LAWS NOW UNDERGOING EDITING, PRESIDENT'S REVIEW

¶2. With the exception of the tax legislation (comprising four bills, affecting corporate, personal, value added, and excise taxes), final texts of the laws are not yet available. As well as last minute changes which may have been made to bills in the hectic rush to pass them prior to Naadam, Mongolian parliamentary procedure allows for substantive changes to be made during a "technical" editing period before bills are formally sent by the SGH to the President for review. This final editing can take a full working week. Once the President receives a bill, he has five working days to consider vetoing the law in full or part.

TAX CUT BILLS WELCOMED; IMPACT ON GOM FINANCES TBD

¶3. Preliminarily, the bills present a mixed picture. The tax reform bills -- which lowered rates and introduced provisions allowing for deductions of business expenses, depreciation, and loss carry forward -- have generally been welcomed by domestic and foreign businesses. However, the IMF worries about the impact on budget finances of lower tax rates given proposed social expenditures increases. The fall SGH session, set to begin in October, is slated to consider customs levies and employment taxes, measures which will complete tax reform.

MINING FIRMS LIKE TAX CUTS; MINERALS LAW MIXED PICTURE

¶4. Foreign mining companies have joined in the praise

for the tax reform measures, which move Mongolia toward world standards. However, they have been vociferously critical of the windfall profits tax on gold and copper passed by the SGH on May 12 (reftel), both regarding the tax itself and the opaque and abrupt way the legislation was passed. Regarding the minerals law amendments, there is a grudging acknowledgment so far that the final version likely was "not as bad as it could have been," but concerns remain over provisions allowing for the state to take an equity stake in "strategic" mining deposits under certain conditions. Royalties for corporate miners were doubled under the bill, from 2.5% to 5%; royalties due from placer miners (mostly Mongolians) were reduced to 5% from 7.5%. Canada's Ivanhoe Mines put out an upbeat press release (www.ivanhoe-mines.com/s/NewsReleases.asp?ReportID=143713) asserting that the tax reform and minerals bills "set the stage" for the company to conclude its long quest for a stability agreement for its proposed copper mine at Oyu Tolgoi.

ANTI-CORRUPTION, MONEY-LAUNDERING LAWS A GOOD START

15. An anti-corruption law has been under consideration since 1999, and an anti-money laundering law for the last three years. The State Great Hural's passage of these two bills is a significant milestone in Mongolia's efforts against both problems. However, details of the measures as passed remain murky, and prior to passage the SGH apparently removed conflict of interest provisions from the anti-corruption law as

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being "too complicated" in Mongolia's small and interwoven polity. Even without that excision, the anti-corruption law would only have made a good beginning at bringing Mongolia into compliance with its obligations under the UN Convention Against Corruption, with additional legislation required. Moreover, Mongolia will require political will, human resources, and technical skills to implement the anti-corruption and anti-money laundering laws; concerns exist as to whether it has any of these. Mongolia will also have to craft anti-terrorism finance laws to complement its new AML. (NOTE: Treasury had earlier offered to assist Mongolia once an AML had passed with training for its soon-to-be-created Financial Intelligence Unit. Following an analysis of the AML itself and after consulting with the Bank of Mongolia and Ministry of Finance, a clearer picture will emerge of Mongolia's technical assistance needs.)

Slutz